Retirement Prospects of Baby Boomers

The baby-boom generation consists of about 78 million persons who were born from 1946 to 1964 inclusive. This generation represented 29 percent of the 1997 U.S. population, and when it reaches old age, our retirement system and health care institutions could be strained. The Bureau of the Census estimates that there will be twice as many persons age 65 or older in 2030 as there are today: 69 million (20 percent of the population) versus 34 million (13 percent of the population). Likewise, the Bureau's population projection, from its middle series, shows 18 million persons age 85 or older in 2050 (4½ percent of the U.S. population); now, there are less than 4 million persons in that age group (1½ percent of the U.S. population).

Generalizations about all baby boomers cannot be made: the baby-boomer generation is diverse, and this diversity will continue when this generation reaches retirement age. In addition, all projections about the economic status of baby boomers in retirement are subject to much uncertainty. All models that are used to produce projections are sensitive to various assumptions. However, researchers can identify specific subgroups of baby boomers that are likely to do better or worse than baby boomers in general. This article summarizes results from several studies concerning the financial prospects of baby boomers in their elderly years. Reports by the following government agencies, organizations, and authors are discussed.

- Congressional Budget Office (CBO), 1993
- Easterlin, Schaeffer, and Macunovich, 1993
- American Association of Retired Persons (AARP), 1994
- Bernheim, 1993
- Kotlikoff and Auerbach, 1994

Studies

Congressional Budget Office, 1993

The CBO study compared the actual income and wealth of baby boomers with that of their parents' generation at the same age and discussed the prospects for the economic well-being of the baby boomers in retirement. Incomes of baby boomers in 1989 were compared with incomes of their parents' generation at the same age in 1959. Using the 1960 Decennial Census and the March 1990 Current Population Survey, the CBO found that baby boomers in retirement generally should be better off than their parents, but some subgroups might not be.

The study examined income change for several socioeconomic subgroups of baby boomers and their parents—classifications by marital status of the householder, number of children in the household, education of the householder, and relative income level. Except for households where the householder did not have a high school education, all subgroups had increases in median income (constant dollars) from 1959 to 1989. The net worth of baby boomers (ages 25 to 34 and 35 to 44) and that of their parents' generation at the same age were also examined. The CBO used data from the 1962 Survey of Financial Characteristics of Consumers and the 1989 Survey of Consumer Finances. The study revealed that during the period, median constant dollar wealth rose for all households, married-head households, and unmarried- head households in both age groups.

The CBO report discussed factors that would be important when looking at the prospects for the economic well-being of baby boomers in retirement. For example, real wages should rise during the next 20 to 40 years, but the rate of growth will be less than that of the 1950's and 1960's. The Social Security retirement age will rise to age 67, and the Social Security earnings test has been made more liberal: factors that might influence people to retire later. Social Security and private pensions are likely to remain important sources of retirement income for baby boomers.

The CBO study concluded that baby boomers with low educational attainment, those who are not married, and those who are not homeowners are more likely than other boomers to have less retirement income than their parents' generation. At-risk groups include younger baby boomers with less than a high school education and younger baby boomers who are single and have children. General sources of risk for baby boomers in retirement are uncertain medical expenses, the size of educational expenses for their children, and uncertainty about average life expectancy when they reach retirement.

Radner prepared estimates of income that are similar to those in the CBO report but also included data in 1994 constant dollars. The oldest baby boomers, ages 45 to 49 in 1994, had median income that was 66 percent above the median for their parents' generation in 1964. The percentage increases for the other baby-boomer cohorts were 54 percent for those ages 40 to 44, 59 percent for those ages 35 to 39, and 51 percent for those ages 30 to 34. These results were consistent with those reported by the CBO.

Easterlin, Schaeffer, and Macunovich, 1993

The Easterlin, Schaeffer, and Macunovich study, using data from the CPS, compared the actual incomes of baby boomers with the incomes of persons 25 years older—assumed to be in their parents' generation. The researchers used four baby-boomer birth cohorts: 1946-50, 1951-55, 1956-60, and 1961-65. (Those born in 1965 are not considered baby boomers.) This study found that the baby boomers were better off than their parents and other cohorts at the same age, but the gap may be narrowing over time.

Baby boomers' median income was about two-thirds higher than it was for their parents' generation at the same age. The difference was slightly higher for the oldest cohort and slightly lower for the youngest cohort. Easterlin, Schaeffer, and Macunovich's study concluded that the income of the baby boomers in retirement probably will be higher than that of their parents' in retirement. This conclusion is based primarily on the fact that life-cycle income patterns up to the observed ages of the baby boomers are not very different from those of earlier cohorts.

Savings rates for baby boomers were found to be similar to those of cohorts that preceded them in recent decades. Home ownership rates generally are similar for baby boomers and their parents' generation. Median net worth for the early baby boomers was more than double the median for their parents' generation. In general, wealth and income improved by about the same percentage for baby boomers, compared with their parents. The Easterlin, Schaeffer, and Macunovich study concluded that, based on both income and wealth, (1) baby boomers are doing considerably better than their parents' cohort did at similar ages; (2) it is likely that the difference will continue for the retirement of baby boomers; and (3) low-income younger baby boomers, who may fall behind corresponding persons in their parents' generation, are particularly at risk.

Radner updated the Easterlin, Schaeffer, and Macunovich's income comparisons by using estimates for 1970 through 1995, with observations every 5 years. Radner's results showed that the income of all four baby-boom cohorts[1] exceeded the income of their parents' generation. The youngest of the baby-boom cohorts had the smallest increase in income. Poverty rates were also compared. There was a tendency for the poverty rate to fall as each cohort aged.

American Association of Retired Persons, 1994

The American Association of Retired Persons (AARP) used the Pension and Retirement Income Simulation Model to estimate and project the income of old baby boomers in 2030 when they will be 66 to 84 years old. The AARP study presented four conclusions:

1. Within the baby-boom generation, an economic underclass—composed mainly of blacks, single women, and those with little education—will remain in that status in retirement.

2. The retirement incomes of younger baby boomers are more sensitive to differences in the future of the economy than are the retirement incomes of older baby boomers, mainly because the younger group has a greater percentage of its working life remaining.

3. Subgroups of the baby-boom generation with low incomes now are likely to do relatively poorly in retirement.

4. Because of general uncertainty, all baby boomers face some risk of inadequate income in retirement.

AARP projects that most baby boomers will be retired in 2030 and will have a real median income 70 percent higher than that of the corresponding age group in 1990. This increase will be caused by the assumed growth in real wages, the increase in women's labor force participation that will produce higher retirement income, and more people receiving pension income. In 2030, about 12 percent of female baby boomers and 2½ percent of male baby boomers are projected to be poor or near poor; over one-third of never-married, divorced, or separated women will be poor or near poor (compared with about 5 percent of men in those categories); and about 75 percent of baby boomers will receive Social Security benefits and pension income and asset income in 2030. Social Security benefits are projected to account for over half of the retirement income of 56 percent of baby boomers (about the same as the percentage in 1990).

Bernheim, 1993

Using estimates of the adequacy of the saving of baby boomers based on their saving behavior thus far, the Bernheim study examined the wealth baby boomers

[1] 1946-50, 1951-55, 1956-60, 1961-65.

would need to maintain adequate consumption in retirement, relative to preretirement consumption. It then compared an estimate of the saving rate of baby boomers thus far with the estimated rate needed. The author used data from the Current Population Survey and the Survey of Consumer Finances and made two assumptions: home equity would not be used to finance consumption in retirement, and savings would be used only for consumption in retirement and not for other purposes.

Findings showed that baby boomers generally are saving too little to maintain preretirement consumption. Bernheim constructed a life-cycle simulation model that provided estimates of the amount of savings needed to sustain consumption in retirement at a level consistent with preretirement consumption. The baby-boomer saving rate was only 34 percent of the required rate when home equity was excluded, but the saving rate was 84 percent of the required rate when home equity was included as a source of consumption in retirement. Bernheim's data are for wealth at a particular time, not for saving (that is, change in wealth). Also, he did not take inheritances into account.

Kotlikoff and Auerbach, 1994

Kotlikoff and Auerbach made projections of mean income and consumption at age 65 for three birth-year cohorts—1946, 1955, and 1964. Using data from the Survey of Income and Program Participation, the Consumer Expenditure Survey (CES), and the CPS, the authors found that baby boomers are poorly prepared financially for retirement because of inadequate saving. The oldest baby boomers at age 65 are projected to have consumption that is higher than the cohort's consumption in 1992 and higher than the consumption of 65-year-olds in 1992 if medical transfers are included in consumption, assuming there is no policy change. If medical transfers are excluded, the oldest baby boomers will have lower consumption in 2011 than in 1992 but will still have higher consumption than 65-year-olds had in 1992. The youngest baby boomers are projected to have slightly lower consumption at age 65 than today's 65-year-olds when consumption excludes medical transfers, lower consumption than that of the other baby-boomer cohorts at each age, and higher consumption at age 65, compared with their current consumption.

Kotlikoff and Auerbach also projected the percentage of each baby-boomer cohort that will have lower consumption than the median consumption of 65-year-olds in 1992. Assuming no policy changes and excluding medical transfers, the projections show that 40 percent of the oldest baby boomers, 42 percent of the middle baby boomers, and 50 percent of the youngest baby boomers will have consumption at age 65 that is less than the median consumption of those age 65 in 1992. This study concluded that the three age cohorts (1946, 1955, and 1964) will just be able to maintain their standard of living when they reach age 65—if there are no changes in policy. At each age, the 1964 cohort is projected to have a lower standard of living than the 1946 cohort at each age.

Conclusions

The consensus of these studies of the baby-boom generation points to the following: until now, baby boomers have had a higher economic status than their parents' generation did at the same ages. The baby boomers also have a higher economic status than preceding cohorts. When the baby-boom generation becomes elderly in the 21st century, its members probably will have a higher economic status than their parents' generation has and still have at those ages. However, compared with their parents' generation, some subgroups of the baby-boom generation do not have higher economic status. Baby boomers need to increase their saving in the coming years, and they may need to retire at later ages to maintain in their retirement years their preretirement standard of living.

Projections should be used with caution if they are used for policy purposes. No reliable projection of the overall status of the baby-boom generation in retirement is possible: factors such as the performance of the economy in the future, the saving behavior and the retirement behavior of baby boomers, asset values, and changes in policy and programs are uncertain. Also, two aspects of the measurement of economic status are problematic. First, putting a value on medical transfers is difficult, and such transfers often are not included in estimates of baby boomers' economic status. Second, in their elderly years, baby boomers are likely to hold substantial equity in their homes, which perhaps should be counted as part of their standard of living.

Source: Radner, D.B., 1998, The Retirement Prospects of the Baby Boom Generation, *Social Security Bulletin* 61*(1)*:3-18.